

To Meet China's Challenge, Innovation (Not Nostalgia) is Key

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replying to [Marco Rubio's "American Industrial Policy and the Rise of China"](#)

Features

02.11.2020

American Mind

Don't remake America: reinvent it.

For the United States, wrestling with how to challenge China means wrestling with how to face a technologically formidable state-led adversary while holding firm to American values of economic openness and freedom. The challenges of a large authoritarian state-led economy present unique problems. How can a free-market open economy respond to competitive threats like subsidies, state-led hacking, and overseas investment as foreign policy initiative?

The China shock to the United States economy was poorly anticipated or understood by politicians and economists in the years after joining the World Trade Organization. With a rising China fueled by subsidies, widespread market protection, and intellectual property theft, [some have argued](#) that to confront China the United States must turn to broad, active industrial policy. While some evolution of policy is understandable, we must both correctly diagnose the problem and stay true to American values which have made our companies global leaders.

Winners and Losers

Since China joined the World Trade Organization in 2000, the United States is the best-performing major developed economy in the world, growing by an average of 2% annually even after factoring in the global financial crisis. The jobs that left the United States after 2000 were low-wage jobs facing extinction whether they relocated to China or Mexico. American firms are the most competitive in the world and generate large amounts of high-paying jobs from trading with China.

While the United States was broadly better off from trading more with China, the speed and depth of the shock left many towns and individuals significantly weaker from the loss of employment. However, we need to reconcile the clear evidence of the China shock with the low unemployment and strong economy we have enjoyed since 2000.

Opening markets creates winners and losers, with the gains broadly spread throughout society while specific firms or industries suffer concentrated losses. Much of the divide we see stems from those who have benefited and those who have been harmed by opening with China.

High-skill Americans are benefiting from the global economy and are broadly supportive of increased integration through trade and finance. They benefit from globalization thanks to their high-demand skills and abilities. Low-skill Americans, hit hardest by

opening up to emerging market economies, are more worried about China. America must reconcile its broad gains from trade and investment with the very pressing reality that many have lost out.

The evidence of this split is abundant. America has historically low levels of interstate migration flowing to high-growth areas. Research has found that highly educated and skilled workers have enjoyed lower levels of unemployment, dislocation from employment when suffering from loss of employment, and higher wage growth. Rather than engaging in broad industrial protection to challenge China, the United States should promote economic policies to help workers and firms in an economy that evolves more rapidly and so requires continual upskilling.

China has engaged in broad-ranging policies to protect their firms, steal intellectual property, and subsidize unprofitable industries. The United States should focus on using targeted policies that address Chinese behavior and help all Americans meet the challenges of continually evolving economic needs.

The Imitation Trap

This presents the ultimate challenge: how can America create policies that directly challenge a closed, authoritarian, state-led model without becoming one?

There are two specific policy tracks to follow here. First, United States government should allocate more resources to pursue and ensure compliance with existing rules and regulations in its dealings with China. Legislative or executive action, however, should be targeted to meet specific threats or instances of Chinese misbehavior. For instance, if there are concerns about federally funded research making its way to China by illegal means, then additional resources should be allocated to increase compliance. Chinese cheating and misbehavior necessitate addressing the misbehavior, not changing what made America great.

Second, the United States must help the losers from free trade upskill to meet the greater demand for different and rapidly evolving employment requirements. As an example, low-skilled garment and textile work that left the United States for Asia will never return as low-skill work to help those left behind. However, due to the use of increasingly automated production methods, garment working is returning closer to final consumption markets, with computer scientists overseeing teams of robots to turn out on-demand t-shirts and shoes.

[42 Silicon Valley](#), for example, is a school that trains men and women in various coding languages where there are significant labor shortages. Instruction is free: the school only takes a percentage of students' incomes if they are placed in jobs earning above a certain threshold. Even trucking in the United States is undergoing a revolution. While there is currently a shortage of truck drivers, companies are already testing driverless long-haul fleets that in the future will require advanced monitoring and technical skills.

We cannot protect legacy industries from technological advances—a far bigger source of job loss. What we can do is create policies that help American workers transition between types of employment and meet the greater need for skill acquisition. American manufacturing output remains at all-time highs, but we need fewer people to produce that output because of technological change—not because of China. Our challenge is to better equip our workforce and help mid-career or displaced workers acquire new technological skills to meet the demands of a rapidly evolving economy.

China joining the WTO was an enormous shock to markets globally. Despite the dislocations, the American economy not only grew but remains the dominant technological and innovate powerhouse in the world. The frustration expressed by many

who felt the China shock most acutely is understandable. Rather than protecting jobs that won't come back, we must reinvent the American economy to help ensure our people can get back on track and get ahead.

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